

USAID/Albania
ANNUAL REPORT FY 2003

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A. Program Level Narrative

Program Performance Summary:

Background: Economic growth in 2001 was 6.5% while the budget deficit reached 3.1% of GDP. Inflation remained low, between 1-2% and external reserves have remained at 4-5 months of imports. Inflation for 2002 is forecast at 4.1%; however, the first quarter inflation figure reached 6.6% due to increased money supply and energy imports. The budget is currently at 8.5% of GDP and domestic financing is expected to expand to 7.3%. Foreign direct investment (FDI) is estimated to have reached \$220 million (M) and \$153M in 2001 and 2002, respectively. However, the level of FDI per capita in Albania is \$174 in cumulative terms since 1989, the lowest in the region. Financing was secured by high levels of external assistance, workers' remittances (\$750M or 18.1% of GDP), and expanded private sector activity.

Albania's imports exceeded \$1.2 billion (B) in 2001 while exports reached \$302M, resulting in a trade deficit of almost \$900M. This can be compared to imports and trade deficit in 2000 of \$1B and \$814M respectively. Exports continue to decline primarily due to a lack of industrial production. The growth in imports is due to increased domestic demand and increased electricity imports. The GoA's sovereign debt is well over \$900M. With the planned project investments or financing, the GOA's foreign sovereign debt is expected to exceed \$1.1B. Future GoA revenues will be increasingly diverted from domestic investment to service/retire foreign debt.

With a 3.1M population and an official 14.4% unemployment rate, Albania is the poorest country in Eastern Europe, ranked 85th out of 162 countries on the 2001 Human Development Index. Unofficial estimates of persons unemployed or engaged in informal or illegal activities range between 30-40%. While now indexed to inflation, real wages dropped by 50% during 1991-96 and the conditions for the majority of the population remain onerous. Studies indicate that inequality in national income distribution is significantly increasing. In relative terms, 29.6% of all Albanians are poor, half of whom live in the extreme poverty category.

U.S. Interests and Goals: Increasing Albania's political and economic stability will allow the country to play a larger and more productive role in reducing regional ethnic tensions and increasing regional stability, directly supporting US interests in the Balkans. USG assistance goals in Albania focus on successfully completing the transition to a modern democracy and a market-driven economy. This will require the country to accelerate the economic and democratic reform process to stimulate private sector investment/activity and the development of civil society, while mitigating the transition costs and the risk of renewed political instability to the public.

The above interests and goals are captured by the Mission Strategic Objectives (SOs). USAID supports growth in the number of self-sustaining private enterprises through macro, sectoral and firm level interventions. Democratization and rule-of-law issues are addressed by increasing the involvement of civil society in economic & political decision making and establishing legal systems that better support democratic processes and market reforms. To mitigate the health related costs of transition, USAID is demonstrating the benefits of health sector reform by improving selected primary health care services at selected sites, focusing on women and mitigating Albania's high maternal and child mortality & morbidity rates.

The U.S. Embassy Offices of Political/Economic and Public Affairs, along with the U.S. Departments of Justice, Treasury and Commerce, are presently working together in the delivery of assistance for the achievement of USG interests and goals in Albania. Topical areas of cooperation with USAID include: anti-corruption/trafficking, private investment, and trade.

Challenges: Despite significant progress since 1997-98, Albania still faces major obstacles in completing the transition process and sustaining equitable and broad-based economic growth. Moreover, the costs of transition to date are seriously undermining public support for further reform. These costs include: a rise in both income poverty and elements of human poverty; a rise in income inequality and wealth inequality; a rise in unemployment, underemployment, and informal employment; and persistently high

levels of morbidity. To some extent such transition costs were inevitable in the short to mid term, but were unnecessarily exacerbated by poor timing and/or delays by the GoA in implementing major reforms.

Given its current fragile political and economic situation, Albania will not complete the difficult transition process in the near to mid term. Major legal and regulatory reforms at the sector and subsectors levels are still needed to restructure the economy, reduce corruption, and stimulate private sector investment/activity. Major reforms in the rule-of-law and governance area are still needed to sustain Albania's nascent democracy, strengthen its civil society, and protect the rights of women, children and minorities. These reforms and their effective implementation are required if Albania is to achieve sustainable and equitable economic development. Such development is an unavoidable and necessary condition for the GoA to maintain public support and momentum to successfully complete the transition process.

Key Achievements: FY 2002 was a year of continued solid and measurable results for the USAID program in Albania, despite three changes in GoA leadership over the past year and the Mission's continued space/staffing constraints. However, the Mission acknowledges that these factors delayed implementation, or diluted the impact, of many USAID funded activities and contributed to the size of the pipeline and carryover.

i) Growth in number of self-sustaining private enterprises: The Mission supports the development of micro, small & medium sized enterprises through the provision of expertise, training and financing. Macro level indicators suggest that major progress was realized in 2002 as: the number of registered businesses increased by 4%, the informal economy as a percent of GDP dropped from 70% to 54%, the quality of commercial bank lending improved as the percentage of standard loans to total loans increased from 59 to 88%, bank loans to medium sized businesses increased by 40%, and a 20% increase in deposits demonstrates growing confidence in the banking sector, providing substantial liquidity for new investments.

USAID funded micro-credit programs, with a current client base of 1,760, now have a repayment rate of 96%, with an interest rate of 24%, and have become financially self sustaining. In addition to supplying an array of training and counseling, USAID is providing credit and guarantees to viable small and medium businesses with growth potential. A \$0.75M guarantee agreement with a private bank was established and, within two months, eight loans were processed. A \$2M credit line was established with a credit agency, demonstrating that credit risk is best managed by the combination of character and cash flow factors rather than collateral. Private sector demand for services & assistance from USAID financed activities surged by 45% this year. USAID agribusiness clients invested \$2.34M of their own funds in 2002 to increase productivity & quality.

USAID supported business associations were active over the past year. Albania's private sector agribusiness council joined the Ministry of Economy's Business Advisory Board to guide the GoA's agribusiness initiative. Regional and annual meetings produced options for GoA regarding taxation schemes, import & export tariffs and needed agriculture sector credits. Of the 17 associations established under the program, eight are now financially self-sufficient. At the advice of these organizations, and USAID advisors, the GOA recently established an SME Development Agency to further support private sector investment.

ii) Increased involvement of civil society in economic and political decision making: Since Albanian society still reflects the polarized environment of 1997, albeit in a moderated state, USAID has focused on strengthening organizations not associated with conflicting parties and mobilizing citizen action against trafficking and corruption. Building on a liberal NGO law enacted last year, Mission advisors helped the judiciary, advocates and NGOs work out the practicalities of the law's implementation, from standardizing NGO registration to training lawyers on the law's provisions. USAID funded a local NGO community needs assessment for alternative dispute resolution and management capacity which donors now use to focus assistance to NGOs.

The Mission funded Albanian Civic Forum Program has worked with more than 200 groups in 75 communities to improve citizens' understanding of democracy and convey advocacy skills. At year's end, 14 field coordinators engaged more than 1500 citizens, including nearly 50 groups pursuing initial organizing efforts. USAID-assisted local NGOs are better at: bringing stakeholders together to address common issues; supporting the devolution of decision-making to local authorities; and promoting awareness of NGO activities. USAID municipal management support in conjunction with the GoA's decentralization strategy is improving service delivery. USAID worked with GoA entities and other actors to implement fiscal decentralization and property transfer, and developed a formula to distribute un-earmarked funds to local governments. Based on a Mission-funded survey of local officials/judges, USAID also helped establish the Association of Local Government Officials, trained Central Electoral Commission staff, improved the voter registry through GIS mapping and proposed changes to the electoral code to the Parliament.

Finally, USAID's media initiative worked with NGOs and local government implementers to promote participation in community improvement projects through a popular TV series, which induced several citizens-businesses alliances to match municipal funds for small infrastructure projects, such as sidewalks. USAID advisors visited 19 TV stations, mostly in the regions, and six local newspapers and provided accounting software along with management training to the organizations. USAID financed the first independent ratings survey in 14 metropolitan areas and provided the results to the broadcast industry. Training was conducted for journalists utilizing the talents of personnel from "60 Minutes" with the intention to replicate that format and produce a semi-monthly program aimed at exposing corruption and trafficking.

iii) Legal systems that better support democratic processes and market reforms: The USAID program has advanced the development of Albania's nascent judicial branch. Albania now has a judicial branch recognized as independent, and the public views the executive & judicial branches as separate, and understands that courts have a formal role in adjudicating disputes. The public is gradually acquiring awareness of basic rights, thanks to USAID-funded civic legal education activities, including legal training to village women, a newspaper series about citizen rights, a guide to the Administrative Code and multiple citizen roundtables with the anti-corruption Citizen Advocacy Office. USAID funded NGOs also succeeded to a greater extent than was thought possible in channeling citizen pressure into advocacy for GoA action and transparency.

Efforts to enhance judge qualifications, as well as promote legal associations and legal education, have begun to bear fruit. USAID assisted the National Judicial Conference (NJC) initially via a leadership training workshop followed by financial and logistical support for the annual meeting of Albanian judges. NJC judges adopted USAID-recommended amendments to their Charter to add a nominating commission and impose member dues. With Mission support the Center for Peace through Justice trained village women on their legal rights. USAID helped Albania initiate implementation of its body of recently enacted but poorly enforced commercial laws. This included judge training in banking law, contracts & trial practice, as well as a course in commercial law for smaller courts. USAID support enabled the School of Magistrates to start educating sitting judges, develop a Strategic Plan and launch a Continuing Judicial Education program.

USAID assistance to Albania's court administration -- providing management and budget training to all court chancellors -- had the added benefit of reducing friction between chief judges and the Ministry of Justice. USAID developed software to enable the chief judge of the Tirana District Court and chancellor of Albania's largest court to collect and report caseload data more efficiently to central court authorities. The USAID-funded Secretariat Office of the NJC strengthened internal democratic practices within the NJC, by making it possible to fill two judge openings on the Albanian Judicial Council through a fair election. Finally, USAID developed two key repositories of judicial information: a database of all Albanian laws and the first compilation of Supreme Court precedent cases since the enactment of the Constitution.

USAID continued to support the GoA's November 2001 4-year strategy to combat trafficking in human beings. This includes establishment of the Citizen's Advocacy Office (CAO), where citizens can bypass official offices to bring complaints in regard to corruption. A weekly TV program that deals directly with

corruption issues led to explosive growth in the CAO case load. DANIDA has since funded the CAO to open offices in two towns outside of Tirana and the Netherlands Development Agency proposes to fund offices in another five towns.

With USAID support the Albanian Coalition Against Corruption (ACAC) grew to an organizational membership of over 140 comprising NGOs, business associations and individuals which closely collaborate with the GoA's anti-corruption and anti-trafficking units. ACAC holds public forums on corruption and trafficking issues that are well attended and reported. Other activities supporting anti-trafficking include: assistance to victims through a reintegration center; strengthening the capacity of police in counter trafficking and irregular migration; research into attitudes/perceptions regarding trafficking among vulnerable groups; establishing relationships with NGOs to mobilize local communities to combat trafficking; and the conduct of two mass information campaigns.

iv) Improved Primary Health Care (PHC) Services in Selected Sites: Women's health, especially reproductive health (RH) is USAID's focus. Quality family planning and RH care reduces maternal and child mortality/morbidity rates. This is, particularly pertinent given that quality family planning and RH care reduces maternal and child mortality/morbidity rates. In RH, the Mission health systems strengthening activity over the past year established a nationwide Contraceptive Logistics Management Information System (CLMIS). The CLMIS has not only resulted in fewer stock outs in the service delivery points but also has provided the data to confirm that the couple years protection (CYP) has more than doubled this past year. As a result of USAID advocacy, the Ministry of Health (MOH) has constituted, for the first time, a National Contraceptive Security Commission which it chairs. Also, a budget line item in the MOH annual budget was included to purchase contraceptives, moving gradually towards covering all needs of the country.

During 2002, the cornerstones of the PHC work have been established. USAID has moved from fragmented policy discussions regarding PHC to having established urban and rural pilot sites and actively engaging Ministries on key issues that are currently debilitating the PHC system. These range from decentralization without consultations to financing to the single payer issue to the lack of clinical practice guidelines. USAID has ensured the development of a 'drugs of choice' list to compliment the developing practice and treatment guidelines. Given Albania's dearth of information, a RH survey was designed/tested and field work was completed at the end of 2002. The results will be critical in establishing a baseline for next year's reporting. An important comprehensive cervical cancer screening program was also established within Tirana this year, addressing the unusually high incidence of late stage cervical cancer found in Albania.

v) Special Initiatives: USAID energy sector assistance to the GoA has mobilized support of International Financial Institutions (IFIs). By drafting a major policy statement with specific commitments for energy sector reform, USAID expertise helped kick start the targeting of IFI energy investments. The policy statement was prepared in collaboration with the GoA and the Albanian Energy Regulatory Agency (KESH). Donor approval of the statement unleashed more than \$120M in commitments for energy sector projects. The institutional capacity and authority of KESH was strengthened by USAID inspired energy sector reform legislation.

vi) Gender Implications: The Mission's PMP has recently been finalized and includes collection of, and reporting on, gender disaggregated data on beneficiaries, members and participants for all SOs. In this regard, it can already be reported that 54% of the beneficiaries under USAID's participant training program are women. USAID's civil society activities are directly and indirectly attacking issues affecting women including gender violence and lack of economic opportunity. The data indicates that, 30% of NGOs assisted by USAID are women NGOs; and 60% of the projects under the NGO strengthening program address women issues. Regarding the private sector, 27% of the borrowers in the micro lending program were women; and 64% of the participants enrolled in the economic education programs are women.

Environmental Compliance: USAID assistance to Albania consists primarily of technical assistance & training and does not include capital construction. This has been documented through IEEs on file with

the E&E Bureau. To date, no in-depth environmental assessments have been completed. As the Mission is seeking a two year extension of the Revised SP, the portfolio is expected to remain dominated by technical assistance programs. Albania is not located in the tropics, therefore tropical forest conservation and sustainable management are not within the Mission's purview as described in FAA Sections 118(e) & 119 (d). However, the Mission does plan to conduct an independent biodiversity assesment in the coming year. As stated in 22 CFR 204, steps have been taken to ensure that sufficient resources & staff are allocated to effectively implement the Agency's environmental procedures.

i) SO#1.3: Increased Self-Sustainable Growth of Private Enterprises. This SO supports continued: a) growth of SMEs, particularly more advanced agribusiness activities in which Albania may have a competitive advantage; b) development of more efficient agricultural production technology (no biotechnology methodology), improved marketing and higher quality products; and c) support for the creation of more bank/nonbank lending opportunities. Activities under this SO have generally been covered by a 22 CFR 216.2(c)(2)(i), (ii), (iii), (x) and (xiv), "Categorical Exclusions" determination. No environmental assessments are anticipated during the SP period.

ii) SO#2.1: Increased Development of Civil Society Actively Involved in Economic and Political Decision-Making. The Mission's revised citizen participation strategy from the previous period remains in effect. The focus is on increased citizen participation which helps ensure that the interests of citizens, including women, the poor and minorities, are included in the decision-making processes of public institutions. Activities found in this SO have generally had "Categorical Exclusions" determination for environmental assessments under 22 CFR 216.2(c)(i), (xiii) and (xiv). No environmental assessments are anticipated during the SP period.

iii) SO#2.2: Legal Systems the Better Support Democratic Process & Market Reforms. This SO will focus on developing of more effective legal institutions with an emphasis on citizen participation; necessary for both strengthening public sector legal institutions, and supporting the application and implementation of democratic and market oriented legal rights & standards. Activities under this SO are generally covered by a "Categorical Exclusions" determination for environmental assessments, 22 CFR 216.2(c)(i),(xiii), and (xv). No environmental assessments are anticipated during the SP period.

vi) SO#3.2: Improved Selected Primary Health Care (PHC) Services in Targeted Sites. Albania needs to provide PHC services as a critical part of its basic social services. The Mission is promoting the efficient use of health resources through technical assistance for health care financing, improved PHC services especially to women, and increase individual & community involvement in health information dissemination. Activities under this SO are generally covered by a "Categorical Exclusions" determination for environmental assessments, 22 CFR 216.2(c)(viii). No environmental assessments are anticipated during the Plan period.

v) SO#4.1: Special Interests, and SO# 4.2: Cross-Cutting Programs. These activities do not contribute directly to a SO, are time-limited, or address extraordinary circumstances requiring assistance. No environmental assessments are required as knowledge of or control over furnishing assistance (usually implemented through IAA or 632(a) arrangements), per 22 CFR 216.2(c)(1)(ii) are essentially outside the Mission's manageable interest. The exception is the Mission's buy-in to the Regional Energy Sector Reform Activity being managed by the E&E Bureau, and is ensuring all environmental documentation is in order. SO#4.2 funds all Mission audit, evaluation and program support activities. No environmental assessments are required per 22 CFR 216.2(C)(2)(x). Cross-cutting training under the participant training activity will continue and does not require an environmental assessment (22 CFR 216.2(c)(2)(i). No environmental assessments are anticipated for either SO during the SP period.

Country Closeout & Graduation:

D. Results Framework

182-0130 Growth in Number of Self-Sustaining Private Enterprises

SO Level Indicator: Number of active registered enterprises

- IR 2 Sustainability of Small and Medium Non-Agriculture Enterprises Increased
- IR 3 Financial Sector Responsive to Small and Medium Enterprises Needs Increased
- IR 1 Business Capacity of Agriculture and Livestock Enterprises Enhanced

Discussion:

182-0210 Increased Involvement of Civil Society in Economic and Political Decision Making

SO Level Indicator: NGOs participating in the political process

- IR 1 Citizen Participation in Public Discussions on key Governance Issues Increased
- IR 2 Increased Citizen Confidence in Accuracy of News and Information
- IR 3 Increased Independence of Local Administration from Central Government
- IR 4 Representative Government Institutions Strengthened

Discussion:

182-0220 Legal Systems that Better Support Democratic Processes and Market Reforms

SO Level Indicator: Judicial Reform Index

- IR 1 Legal Sector Institutions Improved
- IR 2 Greater Advocacy for a More Transparent Legal System

Discussion:

182-0320 Improved Selected Primary Health Care Services at Targeted Sites

SO Level Indicator: Service Delivery Points Providing Primary Health Care

- IR 1 Health Resource Efficiently Managed
- IR 2 Quality of Primary Health Care Services Improved
- IR 3 Use of Primary Health Care Services Increased

Discussion:

182-0410 Special Initiatives

Discussion:

182-0420 Cross-Cutting Programs

Discussion: